CBB Book Review No. BR/17/3

Publication Date: August 28, 2017

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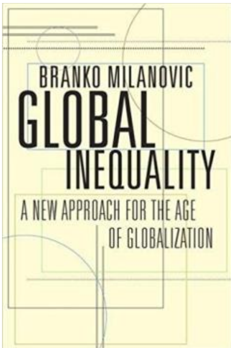

GLOBAL INEQUALITY: A NEW APPROACH FOR THE AGE OF GLOBALIZATION

Author: Branko Milanokavic
Publisher: The Belknap Press of Harvard University Press (2016)

ISBN-13: 978-0674737136

Book Review contributed by Onoh-Obasi Okey*

Global Inequality: A New Approach for the Age of Globalization explores the role of globalisation and its contribution to the expansion in the disparity between the rich and the poor. This work is timely because the global inequality problem has become endemic, manifesting itself both at the country level, as a widening economic gap between developed and developing countries, and within countries on an individual level, as the top 1 percent owns progressively more of the world's assets and wealth.

The first chapter assesses the nature of global inequality across countries by examining changes in real per capita income relative to global income. Between 1988 and 2008, referred to as the "high globalisation era", people earning around the median of global income[1] experienced the fastest growth in real income per capita. This group represents approximately one-fifth of the global population, comprising mainly the middle class of developing Asian economies, such as Indonesia, India and China, the "emerging global middle class."

The "lower middle class of the rich world", characterised by the author as citizens of the United States of America (US), Japan and Germany with incomes at the lower end of the income distribution scale in their countries but above the emerging global middle class, experienced no growth in real income per capita. However, the top 1 percent of global income earners[2], realised

[*]Onoh-Obasi Okey, Research Officer, Central Bank of Barbados, Tom Adams Financial Centre, Spry Street, Bridgetown; Tel.: 1 (246) 436-6870; Fax: 1 (246) 427-1431; Email: onoh-obasi.okey@centralbank.org.bb

[1] Milanokavic defines the median of global income to be around $1400 annually, measured by purchasing power parity (PPP) based on 2005 international prices.

[2] The top 1% of global income distribution is defined by the author as those earning above $71,000 annually, measured by purchasing power parity (PPP) based on 2005 international prices.

significant growth in real income, with 50% being US citizens and the other half from Western Europe, Japan, Brazil, South Africa and Russia. In addition, this group received almost one-fifth of the total increment in global income, compared to the "lower middle" and the "emerging global middle" classes, which received approximately 3% and 5%, respectively. During the post-crisis period, (2008-2011), the income levels of the emerging global middle class continued to rise above pre-crisis levels, primarily because higher incomes of the Chinese middle class. Surprisingly, the lower middle class of the rich world and the global top 1% experienced no growth in real incomes.

Chapter two focuses on the trends in income inequality within countries. Milanokavic argues that the most prominent theories of income inequality are unable to explain its recent rise. In the author's view, global inequality rises and falls in Kuznets's waves[3], according to a sinusoidal pattern over time. Kuznets' hypothesis[4] covers the first Kuznets wave (1561 to 1980) and the second Kuznets wave began around 1980 and ends at 2013.

The relationship between income inequality and average income in the US (1774-2013), the United Kingdom (1688-2010), Spain (1850-2010), Italy (1861-2010), Netherlands (1561-2010), Brazil (1850 -2012) and Japan (1895 – 2011) are also examined. In particular, the data reveal that during the 1860s, the US and the United Kingdom were at similar levels of development and inequality. However, inequality began to decline after World War II and remained relatively low until the "Industrialization Era" of the 1980s. Subsequently, the economic gap began to widen again and continued to do so until the end of 2010. Despite some countries experienced peaks of inequality at different periods, the overall shape of the Kuznets' curve was visible in all cases until 1980 when the second Kuznet's wave began.

The upward sloping portion of the Kuznets's curve, which peaked around 1860, is associated with the rise in inequality following discoveries, the creation of cities and economic growth. In contrast, epidemics and wars were the two main reasons for the downward sloping portion of the Kuznets's curve, which was at its lowest around 1980.

During the second Kuznet's wave, the upward-sloping portion was caused mainly by technological advances, globalisation and policy. The development of information technology led to a shift from labour intensive production to capital intensive production. Globalisation provided the opportunity for cheap labour in Asian economies to produce goods at a lower cost, which could have contributed to job losses and wage reductions in other parts of the world, particularly rich western economies such as the US. This is convincing as the real income gains from globalisation (discussed in Chapter 1) were realised mainly by the emerging global middle

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[3] An extension of Kuznets; hypothesis developed by Milanokavic which states that inequality rises and falls continuously over time.

[4] Kuznets' hypothesis is a theory which states that inequality is low at very low income levels, then rises as the economy develops, and eventually falls again at high income levels. In general, this theory held until 1980, but was unable to explain the increase in equality experienced thereafter.

class (those producing goods in Asia), and the global top 1% (the owners of capital), while almost no growth was experienced by the lower middle class of the rich world (those whose jobs were replaced due to technological advancements).

Globalisation contributed to an increase in the world population growth (two-thirds since 1980) and the opening of former communist economies such as China, to place upward pressure on the global supply of labour. The author credits Solow for the idea that this increase in labour supply has weakened labour's global position and favouring capital owners. Indeed, the decline in trade union density realised across Asia, Germany and the US from 1999 to 2013 further constrains labour's global bargaining power and increases inequality. Another reason put forward by Milanokavic for the upward trend in inequality is pro-rich policies. He posits that regressive tax systems, which tax the rich less than the poor, make the rich better off, as well as policies that tax labour income at higher rates than capital income. Although it is more difficult to tax capital because of its ability to be mobile in nature, the fact still remains that capital owners generally benefit more than others.

Chapter 3 revisits the theme of geographical location and class-based inequality as the main causes of the observed increase in global inequality. In the 1800s, 80% of global inequality was explained by inequality within countries, that is, class-based inequality. Almost two hundred years later, the opposite holds true. Only 20% of global inequality was explained by inequality within nations, indicating that inequality among nations explain 80% of global inequality. Implicitly, therefore, being born or living in a rich country now matters more than being born into a rich family.

Milanokavic opines that the country of residence is responsible for approximately two-thirds of changes in income. The likelihood of higher income based on pure luck and chance of where one happens to be born or live is what Milanokavic calls citizenship premium or rent. However, although globalisation is supposed to mean easier movement of factors of production, goods and technology, this does not seem to apply to the movement of individuals. Many countries view immigrants as a burden to the State and go to great lengths to restrict immigration. This point was made especially clear by the graphical depiction of the world with highlighted walls or fences built between nations, a good example being the US' border with Mexico.

The penultimate chapter opens with a review of poor record of projections provided by the economists. Milanokavic notes that the economic literature appears to be "stuck in its time" as it believed trends would continue into the indefinite future. For example, the economic literature of the 1960s did not foresee the fall of communism or the impressive growth of the Chinese economy. Similarly, the 1990s literature did not forecast the financial crisis or the rise of the emerging economies, such as Brazil, Russia, India, China and South Africa (BRICS). In considering the inevitable error in economic forecasting, the author opts instead for an informal evaluation of political and economic factors to project future global inequality.

The author based his projections for global inequality on two main assumptions: emerging economies should have higher growth rates than rich economies and this should lead to greater income convergence, and secondly, the current position of countries in the Kuznets's wave/cycle determines future global inequality. China is suspected to be approaching the top, of the first Kuznets's wave, with the increase in inequality in China expected to reach its maximum level in the near future and subsequently decline. This projected decline is mainly attributed to higher educational levels and an aging population, implying greater demand for social transfers. The US on the other hand, is suspected to be on the upward portion of the second Kuznets's wave, with income inequality expected to continue to increase. Firstly, an increasing share of income going to capital owners is anticipated as capital is substituted for labour and labour's bargaining power is eroded as a result of lower trade union membership. The fact that capital ownership is heavily concentrated by the rich further increases inequality. Thirdly, individuals who earn high income from labour tend to also earn high income from capital by investing in stocks and other financial instruments. The importance of money in US politics is identified as the final factor towards increasing inequality. In the way the rich are able to support parties that will protect their interest. If elected, the rich are assured policies which benefit them will be implemented and these pro-rich policies are to the detriment of the poor and the middle class.

The book is easy to follow and the clear language and countless graphical representations buttress the author's main points on income inequality. However, while the author is attempting to address a global phenomenon, it was unfortunate that there was no consideration of countries within Africa or the Caribbean region. While it is understood that the lack of historical data is the likely cause of their omission, it would have been interesting to know where they stand in the queue of global inequality or how global inequality changes if these nations are included. Overall the book was informative, exciting and may be a useful read for students, academics, policy makers and believers of equality.

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